

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

MAR 23 2004

PUBLIC SERVICE
COMMISSION

APPLICATION OF CLASSIC CONSTRUCTION,)
INC. AND AQUASOURCE UTILITY, INC.)
FOR APPROVAL OF TRANSFER OF)
OWNERSHIP OF COOLBROOK SEWAGE)
TREATMENT PLANT IN FRANKLIN COUNTY,)
KENTUCKY FROM AQUASOURCE UTILITY, INC.)

CASE NO.
2003-00495

RESPONSE OF JOINT APPLICANTS TO
COMMISSION STAFF'S FIRST SET OF INTERROGATORIES
AND REQUESTS FOR PRODUCTION OF DOCUMENTS

Come the Joint Applicants, AquaSource Utility, Inc. (hereafter "AquaSource") and Classic Construction, Inc. (hereafter "Classic Construction"), by counsel, and together respond as follows to the First Set of Interrogatories and Requests for Production of Documents made by the staff of the Public Service Commission in the captioned matter:

Request 1. Classic Construction shall provide a discussion of the immediate and future impact that the proposed transaction will have on the rates of Coolbrook.

Response to Request 1. Witness: Russell Givens. Classic Construction will adopt the existing rates charged to the Coolbrook customers, therefore there will be no immediate impact on rates. If there are changes in revenues, expenses, rate base, or cost of capital in the future, a rate increase may be requested.

Request 2(a). On page 1 of the application, Classic Construction states that it has approached two companies regarding the billing and collection services for the Coolbrook treatment facilities. Classic Construction shall identify the companies that it has approached and their proposed fees for providing the customer billing and collection services.

Response to Request 2(a). Witness(es): Russell Givens, Stephen Tolliver. Classic Construction has approached two companies regarding billing of Coolbrook customers.

New Age Billing, a Kentucky business located in Frankfort, Kentucky, has been approached about the billing and is presently billing customers of the Ridgewood plant that owned and operated by Classic Construction. The quoted price for billing by New Age Billing was \$3.00 per customer per month. This equates to \$1,317.00 per month for billing.

Evon Hill of Trinity Mortgage also provides billing services within the Frankfort area and has stated she would be willing to provide the billing service. This estimated cost was around 15% depending on how the billing was set up. This equates to almost \$3.00 per customer also and is the basic rate for billing by most companies within the area.

Attorneys of the PSC have advised in the past that the only way to collect unpaid bills is through small claims court, unlike all other utilities within the state. Therefore, no billing company would be allowed to collect unpaid bills. The courts require an officer of the company to present any small claims cases and Classic Construction's officers would have to pursue any collection.

Request 2(b). *Joint Applicants shall provide a comparison of the customer billing and collection fees provided in 2(a) to the costs incurred by AquaSource Utility in the calendar year 2003 for its customer billing and collection.*

Response to Request 2(b). Witnesses: Russell Givens, Stephen Tolliver. Billing and collection expense during calendar year 2003 paid by AquaSource Utility to Avatar was \$5,300.00. This amount excludes internal time spent by AquaSource employees.

Request 3. *On page 1 of the application, Classic Construction refers to financial budgets that have been prepared by Samuel Bryant, Certified Public Accountant. Classic Construction shall provide copies of any budgets that were prepared by Mr. Bryant showing its projected costs for operating the Coolbrook treatment facilities.*

Response to Request 3. Witness: Russell Givens. Although Samuel Bryant, a Certified Public Accountant, has been hired to prepare budgets after Classic Construction takes ownership of

Coolbrook, those budgets have not yet been prepared, and are not therefore produced herein. (On page 1 of its application, Classic Construction actually stated that Mr. Bryant had been employed to assist with the financial budgets, not that he had already prepared those budgets.)

Classic Construction was forced to hire a new CPA due to the death of the company's former accountant. Samuel Bryant was chosen due to his expertise and background with the PSC, to assist with taxes and annual reports related to the Ridgewood Plant.

Request No. 4. On page 2 of the application, Classic Construction states that, "Examination of the financial records of Coolbrook by myself, my certified public accountant and Vice-president of Farmers Bank, Greg Burton, have lead all of us to the conclusion that the Coolbrook Plant can be self supporting and allow for repairs when needed." Classic Construction shall provides copies of any studies or analysis that were performed showing that the Coolbrook treatment facilities can be self-supporting and can fund needed repairs at its current tariffed rate.

Response to Request 4. Witness: Russell Givens. Operating expense related to the Coolbrook plant was based on information provided by AquaSource, and on comparisons to the average cost to operate the Ridgewood plant. Operating cost for the Coolbrook plant came from annual reports for the years 2000 and 2002, as well as consolidated income statements dated December 31, 2002, July 31, 2003, and December 31, 2003. These annual reports and income statements have been previously submitted to the PSC by Classic Construction.

Comparisons to the average cost of Ridgewood are explained below.

	<u>Coolbrook</u>	<u>Ridgewood</u>
1. Operator salary	\$ 1,750.00	\$ 750.00

Salary of an operator for Coolbrook was the quoted salary of Classic Construction's present operator to take over operation of the Coolbrook plant. With Coolbrook being three times the size of Ridgewood, this seemed reasonable.

2. Sludge Hauling	\$ 5,486.00	\$ 1,680.00
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Ridgewood has 98 customers and averages one load per month at, on average, \$140.00 per load. Coolbrook, with 439 customers, is just over three times the size of Ridgewood with bigger digesters, and would average three loads per month.

3. Electric	\$ 1,117.00	\$ 230.00
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This represents the average electric expense for Coolbrook per month, and was obtained from the electric company, Bluegrass Electric.

4. Chemicals	\$ 5,519.00	\$ 1,110.00
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The average chemical cost per month for Coolbrook breaks down to approximately \$459.00 per month.

5. Billing	\$1,317.00/month estimated at \$ 3.00 per customer (per quotes provided above).	
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<u>Estimated Operating Expenses</u>	<u>Monthly</u>	<u>Yearly</u>
Contract Labor	\$ 1,750.00	\$ 21,000.00
Electric	\$ 1,117.00	\$ 13,404.00
Sludge Hauling	\$ 386.00	\$ 4,636.00
Chemicals	\$ 459.00	\$ 5,519.00
Billing	\$ 1,317.00	\$ 15,804.00
Total Expenses	\$ 5,029.00	\$ 60,348.00
 Revenue	 \$ 9,754.58	 \$ 117,054.96

The above figures are estimates of expenses for basic operation and do not include taxes, testing, accounting fees, property maintenance, uncollectibles and other miscellaneous expenses. Classic Construction, being a smaller, local company, will not have many of the expenses that AquaSource

had due to salaries and being located out of state. Classic Construction believes it will realize a net income of \$3,500.00 per month.

Request 5. Classic Construction shall provide the journal entries it will record to reflect the purchase of the assets of the Coolbrook facilities.

Response to Request 5. Witness: Russell Givens.

Account Description	dr (cr)
Utility plant in service	912,908
Accumulated depreciation	(386,874)
Construction work in process	109,999
Acquisition adjustment	(626,033)
Equity	<u>(10,000)</u>
	<u>0</u>

Request 6. AquaSource utility shall provide the journal entries it will record to reflect the sale of the assets of the Coolbrook facilities.

Response to Request 6. Witness: Stephen Tolliver.

Account Description	dr (cr)
Utility plant in service	(912,908)
Accumulated depreciation	386,874
Construction work in process	(109,999)
Cash	10,000
Loss on sale of assets	<u>626,033</u>
	<u>0</u>

Request 7. Joint Applicants shall provide in comparative form Coolbrook's balance sheet before and after the sale of its assets to Classic Construction.

Response to Request 7. Witnesses: Russell Givens, Stephen Tolliver.

	Before sale	After sale
Assets		
Net accounts receivable	\$ 30,081	\$ 0
Utility plant in service	912,908	912,908
Accumulated depreciation	(386,874)	(386,874)
Construction work in process	109,999	109,999
Acquisition adjustment	<u>0</u>	<u>(626,033)</u>
Total as sets	\$666,114	\$ 10,000
Liabilities & Equity		
Current liabilities	\$713,788	\$ 0
Equity	<u>(47,674)</u>	<u>10,000</u>
Total liabilities & equity	\$666,114	\$ 10,000

Request 8. Refer to Section 8 of the November 26, 2003 Agreement between AquaSource Utility and Classic Construction for the Sale of a Wastewater Utility System, Notice of Violation. AquaSource Utility states that it has received a Notice of Violation (“NOV”) from the Kentucky Division of Water (“DOW”). To resolve its NOV AquaSource Utility is replacing the influent lift station and is removing a portion of, or all of, the entire lagoon and fences.

- (a). In Case NO. 2003-00175, the commission found that a Certificate of Public Convenience and Necessity (“Certificate”) was not required for the proposed chlorination system revisions and the installation of a customer lift station. AquaSource Utility shall explain if the customer lift station and the influent lift station refer to the same project.

Response to Request 8(a). Witness: Stephen Tolliver. The Treatment Plant influent lift station and the customer lift station are different. The customer lift station serves one residence, and was installed in 2003 on the customer’s property to address a problem related to the elevations of the customer’s property and the Coolbrook collection system. The pumps and controls for the Treatment Plant influent lift station were replaced earlier this year to eliminate a hydraulic loading problem at a manhole on the plant property.

- (b). Joint Applicants shall provide the current status of the projects identified in 8(a). The status report for each project should include: the date construction began; the date construction was completed; the estimated project cost; the actual project cost; and a description of how the project was funded.

Response to Request 8(b). Witness: Stephen Tolliver. The Chlorination system cost was \$2,861.81 and was completed on October 30, 2002.

The customer lift station project was started on April 3, 2003 and completed on August 1, 2003. The estimated cost was \$5,333.72.

The treatment plant lift station and lagoon closure were the subject of a meeting with the Division of Water on March 20, 2003 in Frankfort. Following that meeting, Mr. James K. Cool, General Manager, Environmental Health and Safety at AquaSource sent a letter dated April 8, 2003, to Mr. Phil Broomall at the Division of Water outlining steps AquaSource would take to address

issues in a Notice of Violation discussed at the meeting. The Division of Water subsequently encouraged AquaSource to accomplish the lagoon closure expeditiously in the fall of 2003. Because staff shortages at DOW could cause inordinate delays in review of formal plans, it was suggested that the work be considered to be in the "ordinary course of business." AquaSource proceeded to order and install the pumping equipment to eliminate overflows at the manhole on the station property. That work was completed on February 11, 2004 at a cost of approximately \$25,000.00.

On January 22, 2004, AquaSource finally received a letter of approval from the Division of Water for closure to the lagoon. That work was started in January 2004, but has been delayed by poor weather conditions. The work is continuing, but remains hampered by weather conditions. The estimated cost to complete this work is \$75,000.00.

- (c). If any of the projects identified in 8(a) have not been constructed, Classic Construction shall provide a detailed explanation of its plans and identify how the project will be funded.**

Response to Request 8(c). Witness: Stephen Tolliver. All work except the lagoon closure has been completed. AquaSource is responsible for this expense and has agreed to complete the work even if weather conditions necessitate that it extend past closing of the sale of the utility.

- (d). In Case No. 2003-00175, AquaSource Utility's application for a Certificate to improve the capacity of its wet pump and to close the tertiary treatment lagoon was dismissed due to AquaSource Utility's inability to provide DOW approval. Joint Applicants shall provide the current status of these projects. If the projects are to be constructed, provide a projected time frame for completing the projects and explain how each project will be funded. Also, explain why a Certificate is not required to construct either project.**

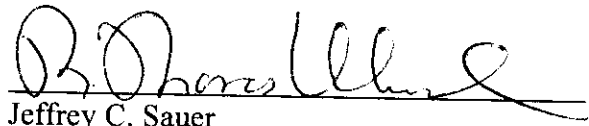
Response to Request 8(d). Witness: Stephen Tolliver. AquaSource submitted an application to DOW, and also met, telephoned, and e-mailed DOW to work out plans to address problems at this facility and to request recognition by DOW of the measures proposed, including replacing the influent pumps and controls and closing the lagoon, as work necessary in the ordinary course of

business. We are still awaiting final approval by the engineering section of DOW for the completed influent pumping station pump replacement. The lagoon closure work has been approved and is underway but not yet completed. The Company has found a responsible purchaser for the system, and as part of the agreement of sale, is providing the funds necessary to complete the items described above as part of the agreement of sale.

- (e). **Joint Applicants shall provide copies of the NOV's that Coolbrook has received from the DOW during the calendar years 2001 through 2004. Also, include the steps AquaSource Utility has taken to resolve the NOV's.**

Response to Request 8(e). Witness: Stephen Tolliver. Attached as *Request 8(e), Item 1*, is a copy of the NOV received in 2002. AquaSource Utility has made diligent efforts since 2001 to address problems at this troubled utility, including slip lining several hundred feet of pipe to reduce infiltration, bringing in professional Certified Operators, replacing equipment, installing a grinder lift station to resolve a difficult problem for one customer, clearing debris, and painting plant facilities.

Respectfully submitted,



Jeffrey C. Sauer
M. Thomas Underwood
Mosley, Sauer & Townes, PLLC
401 West Main Street
1900 One Riverfront Plaza
Louisville, Kentucky 40202
502 589-4404


Counsel for AquaSource Utility, Inc.

Certificate of Service

The undersigned certifies that the within Response of AquaSource was sent to the parties on this 22nd day of March, 2004, as follows:

Via Overnight Mail: Public Service Commission (original + eight copies)
Case No. 2003-00495
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Via Regular Mail: David Edward Spenard, Esq. (one copy)
Assistant Attorney General
1024 Capital Center Drive
Frankfort, Kentucky 40601-8204



M. Thomas Underwood
Counsel for AquaSource Utility, Inc.

DOD/FEA EXHIBIT TJP-1

LOUISVILLE GAS AND ELECTRIC COMPANY
 CALCULATION OF LG&E REVENUE DEFICIENCY
 FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	Electric	Gas	Total
1 Net Operating Revenues Required (DOD/FEA Exhibit TJP-2)	\$96,868,620	\$ 21,083,489	\$117,952,109
2 Adjusted Net Operating Income (DOD/FEA Exhibit TJP-3)	<u>85,098,862</u>	<u>15,027,569</u>	<u>100,126,431</u>
3 Net Operating Income Deficiency	\$11,769,758	\$6,055,920	\$17,825,678
4 Gross Up Revenue Factor	<u>0.59236556</u>	<u>0.59236556</u>	<u>0.59236556</u>
5 Operating Deficiency	<u>\$19,869,079</u>	<u>\$10,223,282</u>	<u>\$30,092,361</u>

LOUISVILLE GAS AND ELECTRIC COMPANY
CALCULATION OF COST OF CAPITAL
AS OF SEPTEMBER 30, 2003

Electric A	LG&E Adjusted Capitalization B	LG&E Adjusted Capital Structure C	RATE D	WEIGHTED COST OF CAPITAL E
1 Short Term Debt	\$57,012,531	3.84%	1.06%	0.04%
2 A/R Securitization	56,749,065	3.82%	1.39%	0.05%
3 Long Term Debt	605,310,657	40.74%	3.77%	1.54%
4 Preferred Stock	53,433,443	3.60%	2.51%	0.09%
5 Common Equity	713,195,661	48.00%	10.00%	4.80%
6 TOTAL	<u>\$1,485,701,357</u>	<u>100.00%</u>		<u>6.52%</u>
7 Revenue Requirement Based on Capitalization (line B6 * line E6)		<u>\$96,868,620</u>		
Gas	LG&E Adjusted Capitalization	LG&E Adjusted Capital Structure	RATE	WEIGHTED COST OF CAPITAL
8 Short Term Debt	\$11,998,168	3.84%	1.06%	0.04%
9 A/R Securitization	11,945,281	3.83%	1.39%	0.05%
10 Long Term Debt	127,400,118	40.81%	3.77%	1.54%
11 Preferred Stock	11,246,498	3.60%	2.51%	0.09%
12 Common Equity	149,552,687	47.92%	10.50%	5.03%
13 TOTAL	<u>\$312,142,752</u>	<u>100.00%</u>		<u>6.75%</u>
14 Revenue Requirement Based on Capitalization (line B13 * line E13)		<u>\$21,083,489</u>		

LOUISVILLE GAS & ELECTRIC COMPANY
 ADJUSTMENTS TO LG&E'S ELECTRIC AND GAS OPERATING REVENUES, OPERATING EXPENSES AND NET OPERATING INCOME
 FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

Ref. DOD/FEA Exhibit	Electric			Gas		
	Operating Revenues A	Operating Expenses B	Net Operating Income C	Operating Revenues D	Operating Expenses E	Net Operating Income F
1 LG&E adjusted net operating income (Rives Exhibit 1 line 44)	\$727,479,761	\$659,469,543	\$68,010,218	\$84,967,114	\$73,717,089	\$11,250,025
DOD Adjustments						
2 Adjustment to unbilled revenues	4	3,969,800	3,969,800	3,134,600		3,134,600
3 Adjustment to pro-forma depreciation expense	5		(8,959,749)		(1,605,685)	1,605,685
4 Adjustment to pro-forma pension and post retirement	6		(2,755,478)		(724,767)	724,767
5 Adjustment to normalized storm damage	7		(447,183)			
6 Adjustment to pro-forma ESM audit expenses	8		(29,167)			
7 Adjustment to pro-forma injuries & damages	9		(153,809)		(123,663)	123,663
8 Adjustment to pro-forma revenues for merger savings	10	2,758,795	2,758,795			
9 Adjustment to pro-forma effect of accounting change	11	(5,280,909)	5,280,909			
10 Adjustment to pro-forma office lease expense	12	(1,198,947)	1,198,947			
11 Adjustment to Cane Run repair refund	13	(2,392,000)	2,392,000		(318,707)	318,707
12 Adjustment pro-forma carbide lime write-off	14	(708,356)	708,356			
13 Eliminate storage field losses & purification adjustment	15					
14 Total DOD adjustments	\$6,728,595	(\$21,925,598)	\$28,654,193	\$3,134,600	(\$3,199,576)	\$6,334,176
15 Tax factor 40.3625	2,715,829	(8,849,719)	11,565,549	1,265,203	(1,291,429)	2,556,632
16 DOD adjustment to Net Operating Income	\$4,012,766	(\$13,075,879)	\$17,088,644	\$1,869,397	(\$1,908,147)	\$3,777,544
17 DOD adjusted net operating income	\$731,492,527	\$646,393,664	\$85,098,862	\$86,836,511	\$71,808,942	\$15,027,569

DOD/FEA EXHIBIT TJP-4

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E PRO-FORMA UNBILLED REVENUES RECOMMENDATION
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	<u>Electric</u>	<u>Gas</u>
1 LG&E unbilled revenue adjustment	(\$1,867,000)	(\$2,780,000)
2 Elimination LG&E unbilled revenue adjustment	<u>0</u>	<u>0</u>
3 DOD adjustment to LG&E revised revenues	<u>\$1,867,000</u>	<u>\$2,780,000</u>
4 LG&E unbilled revenues at September 30, 2002	\$21,028,000	\$3,546,000
5 10 year amortization of unbilled revenues	<u>\$2,102,800</u>	<u>\$354,600</u>
6 DOD change to LG&E's pro-forma adjustment to unbilled revenues (line 3 + line 5)	<u>\$3,969,800</u>	<u>\$3,134,600</u>

DOD/FEA EXHIBIT TJP-5

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E'S PRO-FORMA ANNUALIZED DEPRECIATION EXPENSE
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	<u>Electric</u>	<u>Gas</u>
1 LG&E pro-forma adjustment to depreciation expense	\$8,959,749	\$1,605,685
2 DOD recommended amount	<u>0</u>	<u>0</u>
3 DOD adjustment to LG&E's pro-forma depreciation expense under proposed rates	<u><u>(\$8,959,749)</u></u>	<u><u>(\$1,605,685)</u></u>

DOD/FEA EXHIBIT TJP-6

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E'S PRO-FORMA PENSION AND POST RETIREMENT
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	<u>Electric</u>	<u>Gas</u>
1 LG&E pro-forma adjustment for pension and post retirement	\$2,755,476	\$724,767
2 DOD recommended amount	<u>0</u>	<u>0</u>
3 DOD adjustment to LG&E pro-forma pension and post retirement	<u>(\$2,755,476)</u>	<u>(\$724,767)</u>

DOD/FEA EXHIBIT TJP-7

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E'S PRO-FORMA NORMALIZED STORM DAMAGE EXPENSE
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	Electric
1 LG&E pro-forma adjustment for normalized storm damage expense	\$70,492
2 Five year normalization	
Year	Expense
Test Year	\$2,499,252
2002	2,465,175
2001	2,329,376
2000	2,167,000
1999	1,152,000
3 Total	\$10,612,803
4 Five year average	\$2,122,561
5 Five year average storm damage	\$2,122,561
6 Storm damage expense included in test year	2,499,252
7 DOD recommended adjustment (line 5 - line 6)	(376,691)
8 DOD adjustment to pro-forma normalized storm damage (line 7 - line 1)	(\$447,183)

DOD/FEA EXHIBIT TJP-8

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E PRO-FORMA ESM AUDIT EXPENSES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	<u>Electric</u>
1 LG&E pro-forma adjustment to ESM audit expenses	\$58,333
2 DOD recommended amount (line 1 * 50%)	<u>29,167</u>
3 DOD adjustment to LG&E pro-forma ESM audit expenses	<u><u>(\$29,167)</u></u>

DOD/FEA EXHIBIT TJP-9

LOUISVILLE GAS & ELECTRIC COMPANY
 ADJUSTMENT TO LG&E'S PRO-FORMA INJURIES & DAMAGES FERC ACCOUNT 925
 FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	Electric	Gas
1 LG&E pro-forma adjustment for normalized injuries/damages FERC account 925	\$501,449	\$293,513
2 DOD recommended amount line 7	347,640	169,850
3 Adjustment to LG&E pro-forma injuries and damages expenses	<u>(\$153,809)</u>	<u>(\$123,663)</u>
4 Adjustment		
Year	Electric	Gas
Test Year	\$1,504,891	\$411,928
2002	3,369,044	354,333
2001	726,180	323,911
2000	1,750,482	770,436
1999	<u>1,912,057</u>	<u>1,048,283</u>
Total	<u>\$9,262,654</u>	<u>\$2,908,891</u>
Five Year Average	<u>\$1,852,531</u>	<u>\$581,778</u>
5 Five year average injury/damage	\$1,852,531	\$581,778
6 Injury/damage expenses in test year	<u>1,504,891</u>	<u>411,928</u>
7 DOD recommended amount	<u>\$347,640</u>	<u>\$169,850</u>

DOD/FEA EXHIBIT TJP-10

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E'S PRO-FORMA MERGER SAVINGS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	<u>Electric</u>
1 LG&E pro-forma adjustment to operating revenues for merger savings	\$2,758,795
2 DOD recommended amount	<u>0</u>
3 DOD adjustment to LG&E pro-forma operating revenues merger savings	<u><u>\$2,758,795</u></u>

DOD/FEA EXHIBIT TJP-11

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E'S PRO-FORMA CUMULATIVE EFFECT OF ACCOUNTING CHANGE
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

	<u>Electric</u>
1 LG&E pro-forma adjustment to operating revenues for merger savings	\$5,280,909
2 DOD recommended amount	<u>0</u>
3 DOD adjustment to LG&E pro-forma cumulative effect of accounting change	<u><u>(\$5,280,909)</u></u>

DOD/FEA EXHIBIT TJP-12

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E'S PRO-FORMA CORPORATE OFFICE LEASE EXPENSE
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

1 LG&E pro-forma adjustment for corporate office lease expense		\$2,276,481
2 DOD recommended amount (normalize over 3 years)		<u>758,827</u>
3 DOD adjustment to LG&E pro-forma corporate office lease expense		<u>(\$1,517,654)</u>
4 Electric portion	79%	(\$1,198,947)
5 Gas portion	21%	<u>(\$318,707)</u>
6 Total		<u>(\$1,517,654)</u>

DOD/FEA EXHIBIT TJP-13

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E'S PRO-FORMA ENTRY FOR CANE RUN REPAIR REFUND
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

1 LG&E pro-forma adjustment for Cane Run repair refund	\$3,588,000
2 DOD recommended amount (normalize over 3 years)	<u>1,196,000</u>
3 DOD adjustment to LG&E pro-forma entry for Cane Run repair refund	<u><u>(\$2,392,000)</u></u>

DOD/FEA EXHIBIT TJP-14

LOUISVILLE GAS & ELECTRIC COMPANY
ADJUSTMENT TO LG&E'S PRO-FORMA ENTRY FOR CARBIDE LIME WRITE-OFF
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

1 LG&E pro-forma adjustment for carbide lime write-off	(\$1,416,711)
2 DOD recommended amount	<u>(2,125,067)</u>
3 DOD adjustment to LG&E pro-forma entry for carbide lime write-off	<u><u>(\$708,356)</u></u>

LOUISVILLE GAS & ELECTRIC COMPANY
REVERSAL OF LG&E'S ADJUSTMENT TO REFLECT CURRENT COSTS
FOR STORAGE FIELD LOSSES AND PURIFICATION EXPENSES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003

1 LG&E pro-forma adjustment storage field losses and purification expenses	\$426,754
2 DOD recommended amount	<u>0</u>
3 DOD adjustment to LG&E pro-forma entry	<u><u>(\$426,754)</u></u>

Certificate of Service

I certify that I have caused a copy of this document to be sent to the following addressees by first class, postage prepaid, U.S. Mail:

Hon. Kendrick R. Riggs
Ogden, Newell, & Welch
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Hon. Linda S. Portasik
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Office of the Staff Judge Advocate
HQ, US Army Armor Center & Fort Knox
ATTN: ATZK-JA (Hon. Daniel M. Kininmonth)
Fort Knox, KY 40121-5000

Mr. Michael S. Beer
Vice President, Rates & Regulatory
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Louisville, KY 40232-2010

Hon. Robert M. Watt
Stoll, Keenon & Park
300 West Vine Street, Suite 2100
Lexington, KY 40507-1801

Hon. Michael L. Kurtz
Boehm, Kurtz & Lowry
Suite 2110
36 East Seventh Street
Cincinnati, OH 45202

Hon. Elizabeth E. Blackford
Assistant Attorney General
1024 Capital Center Avenue, Suite 200
Frankfort, KY 40601

Hon. Joe F. Childers
Attorney at Law
201 W. Short Street, Suite 310
Lexington, KY 40507

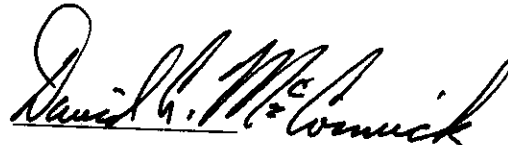
Hon. David C. Brown
Stites & Harbison
1800 Aegon Center
400 West Market Street
Louisville, KY 40202

Hon. Lisa Kilkelly
LEGAL AID SOCIETY, INC.
425 Muhammad Ali Blvd.
Louisville, KY 40202

Hon. Iris Skidmore
Office of Legal Services, Division. of Energy
Environmental and Public Protection Cabinet
Fifth Floor, Capital Plaza Tower
Frankfort, KY 40601

Hon. David J. Barbarie
Department of Law
Lexington-Fayette Urban County
Government
200 East Main Street
Lexington, KY 40507

Dated this 22nd day of March 2004, at Arlington County, Virginia.


David H. McCormick

**COMMONWEALTH OF KENTUCKY
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
DEPARTMENT FOR ENVIRONMENTAL PROTECTION
DIVISION OF WATER**

NOTICE OF VIOLATION

TO:

AQUA SOURCE
6200 E. HWY. 62, SUITE 800
JEFFERSONVILLE IN 47130
Attn: JOE EWALT

SITE:

COOLBROOK SUBD
CLEARWATER CT
FRANKFORT KY 40601

Site ID #: KY0044351

County: Franklin

Notifications/Complaints System #: 106102

NOV Tracking #: 5852

Date(s) Violation(s) Observed: 08/30/2002

OIG Case #:

Enforcement Case #:

This is to advise that you are in violation of the provisions cited below:

Statute/Regulation(No. 1): KRS 224.70-110 401 KAR 5:015

A description of the violation:

FAILURE TO REPORT A SPILL OR BYPASS

The required remedial measure(s), and date(s) to be completed by; are as follows:

REPORT ALL BYPASSES AND SPILLS TO THE DIVISION OF WATER To be completed by: 09/10/2002

Statute/Regulation(No. 2): KRS 224.70-110 401 KAR 5:031 2

A description of the violation:

DEGRADATION OF THE WATERS OF THE COMMONWEALTH

The required remedial measure(s), and date(s) to be completed by; are as follows:

CEASE ALL DEGRADATION TO THE RECEIVING STREAM AND CONSEQUENTLY THE WATERS OF THE COMMONWEALTH IMMEDIATELY. PUMP AND RESTORE THE RECEIVING STREAM IMMEDIATELY. To be completed by: 09/10/2002

Statute/Regulation(No. 3): KRS 224.70-110 401 KAR 5:065 1

A description of the violation:

FAILURE TO COMPLY WITH KPDES PERMIT NO. KY0044351 CONDITIONS.

The required remedial measure(s), and date(s) to be completed by; are as follows:

COMPLY WITH ALL PERMIT CONDITIONS IMMEDIATELY. To be completed by: 09/10/2002

Statute/Regulation(No. 4): KRS 224.70-110 401 KAR 5:065 1

A description of the violation:

FAILURE TO PROVIDE PROPER OPERATION AND MAINTENANCE OF THE PLANT.

The required remedial measure(s), and date(s) to be completed by; are as follows:

PROVIDE PROPER OPERATION AND MAINTENANCE FOR THE PLANT IMMEDIATELY. To be completed by: 09/10/2002

Statute/Regulation(No. 5): KRS 224.70-110 401 KAR 5:065 1

A description of the violation:

FAILURE TO REPORT A SPILL OR BYPASS WITHIN 24 HOURS.

+

DEP 4025

Request 8(e)

Item 1

Sheet 1 of 2

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The required remedial measure(s), and date(s) to be completed by; are as follows:
REPORT ALL BYPASSES WITHIN 24 HOURS OF THE OCCURRENCE. To be completed by: 09/10/2002

Violations of the above cited statute(s) and/or regulation(s) are subject to a civil penalty per day per violation. Violations carry civil penalties of up to \$25,000 per day per violation depending on the statutes/regulations violated. In addition, violations may be concurrently enjoined. Compliance with remedial measures and their deadlines does not provide exemption from liability for violations during the period of remediation, nor prevent additional remedial measures from being required.

If you have questions or need further information, write or call the undersigned:

Division Of Water
Frankfort Regional Office
643 Teton Trail Suite B
Frankfort, Ky 40601
(502) 564-3358 (07:30-4:00)

Barbara Risk, ENVIRONMENTAL INSPECTOR III

Issued By:

Date: 09/12/2002

Issued By:

Barbara Risk ENVIRONMENTAL INSPECTOR III

Date: 09/12/2002

Depmpower6

How Delivered: Certified Mail 7000 0520 0018 2433 7066

cc: FILE